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COMPANY EXCEPTIONS TO RECOMMENDED ORDER

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Date: October 29, 2011

Docket No.: W-02368A-11-0185
Mirabell Water Company
PO Box 85160
Tucson, AZ 85754

We have reviewed the Recommended Order of Administrative Law Judge (ALJ) Jane L. Rodda for Mirabell Water Company (Mirabell), dated October 20, 2011.

Although the Company is pleased with the revenue requirement proposed by Staff and the ALJ, as well as the ALJ proposing a portion of the surcharge requested, Mirabell maintains that the full $10 per customer per month surcharge is imperative. This conclusion is based upon ongoing detailed analysis of Mirabell's operations, and is delineated in the following paragraphs.

Prior Rate Case

Mirabell's prior test year was 2004, and the revenue that year as accepted by Staff was $37,056. Staff recommended a revenue requirement of $40,911, which was accepted, and resulted in Decision No. 68233. These new rates became effective for usage on November 1, 2005, which was first billed in December 2005. This resulted in the impact of the new rates not being realized until 2006.

Interim Years Between Rate Cases

Since the 2004 test year, Mirabell's total customers decreased from 62 to 57, or 8% of the customer base. Equally important is the migration of customers from a 1-inch meter to a ¾-inch meter. In 2004, Mirabell had an average of 23 1-inch metered customers, and during the 2010 test year there were only 11 customers with 1-inch meters.

Revenue Impacts

Even though Mirabell was granted revenue of $40,911 in its last rate case, Schedule 1 clearly reveals that this revenue amount has never been attained. In a micro-sized water company like Mirabell, any deviation from assumptions is magnified due to its size. The loss of 5 customers and the migration of 7 customers to the smaller meter size has negatively impacted Mirabell's revenue, and resulted in a company with many past due obligations as it struggled to survive.

Additional Information

On page 11, line 18, the Recommended Order states that "...the shareholder should bear some responsibility for past managerial decisions that contributed to the current financial condition of the Company." Mirabell disagrees with that statement as Mr. Freedman has invested nearly $8,000 of his own funds in the Company since March of 2010. In addition, the inability to obtain a revenue target is not as much a function of management, as it is of customer count, meter size, and rates.

Mirabell continues to oppose the rate design proposed by Staff, and adopted by the ALJ in the Recommended Order. The Company has already experienced customer and usage shifts that have made it financially unstable for years, and we believe the ALJ's adoption Staff's rate design will further perpetuate that condition. As a result, Mirabell requests the Commission adopt its rate design to attain the revenue requirement.

The Recommended Order also proposes that Mirabell file at least three BMP's as a compliance item in this Docket. The Company disagrees and believes this is yet more compliance and regulation not appropriate for a company of this size with limited resources. Micro sized water companies have many of the same rules, laws, and policies to follow as Class A utilities, however they lack many of the resources and/or expertise necessary to comply, which puts them at constant risk of default. Mirabell must direct its resources to continue to upgrade the system and address the backlog of unpaid accounts payable, instead of focusing on new requirements.

Conclusion

The current financial condition of Mirabell is a product of insufficient revenue, and this has severely hampered management and ownership. The Company has lost $26,980 in revenue since the current rates went into effect in 2006 that will never be recovered. The sole shareholder has personally spent $8,000 of his own money to pay operating expenses that kept the system providing water. Therefore, to now expect this shareholder to absorb another loss of $4,577 to hire professional management (which he thought he had during the interim years) is unreasonable.

For the above reasons, Mirabell requests the following modifications to the Recommended Order:

- The Company rates and charges as set forth on pages 4 and 5 be adopted instead of the Staff rates as proposed on pages 15 and 16.
- On page 17, line 5, the $5.00 surcharge per month is changed to $10.00.
- Page 17, line 7, strike "collected or" and "whichever is sooner".
- Strike the paragraph on page 17 beginning on line 8 and ending on line 11.

- Strike the paragraph on page 17 beginning on line 18 and ending on line 21.

- Make other conforming changes.

Thank you for your consideration.

Morton Freedman

Mr. Morton Freedman, President
Mirabell Water Company

PRIOR RATE CASE RECOMMENDED REVENUE COMPARED TO ACTUAL REVENUE BY YEAR

	Prior Test Year						Current Test Year
	2004	2005	2006*	2007	2008	2009	2010
Actual Water Revenue by Year	$ 37,056	$ 35,484	$ 37,533	$ 39,390	$ 33,720	$ 33,980	$ 32,951
Revenue Requirement from Decision 68233, dated 10/25/2005			40,911	40,911	40,911	40,911	40,911
Annual Revenue Shortfall			$ (3,378)	$ (1,521)	$ (7,191)	$ (6,931)	$ (7,960)
Cumulative Revenue Shortfall							$ (26,980)

* Revenue from new rates reflected during the entirety of 2006, but only one month in 2005, as rates became <u>effective</u> for service on or after 11/01/2005.